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FORTUNE

WHY WOMEN AREN'T GETTING TO THE TOP



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FORTUNE



Women have moved into the executive ranks as never before, but as Neil Selkirk's cover photograph suggests, they still aren't making it to the top at large corporations. The reasons are examined on page 40.

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The reasons are elusive and are frustrating management. *by Susan Fraker*

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Antitrust Policy

"Antitrust Policy After the Steel Veto" (March 19) struck me as a generally excellent treatment of the subject, although obviously I would not want to ratify all of its particular conclusions. One aspect of writer Ann Reilly's treatment of the resale price maintenance issue, however, needs clarification.

Since 1977 the Supreme Court has said that nonprice vertical restraints, such as manufacturer-imposed exclusive territories, are to be judged case by case to determine whether or not they violate the antitrust laws. This "rule of reason" analysis thus contrasts with the unlawful per se approach applied to practices such as horizontal price fixing that are always anticompetitive.

Contrary to your photo caption ("Justice has urged the Supreme Court to let manufacturers set minimum retail prices . . ."), the department argued only (and I concur) that retail price maintenance should also be judged by the rule of reason. This is desirable because in certain circumstances retail price maintenance is procompetitive on balance, for reasons cited by Ms. Reilly.

JAMES C. MILLER III
Chairman
Federal Trade Commission
Washington

You correctly state that resale price maintenance policies inevitably lead to consequences for consumers, retailers, and discounters that are much larger than most people realize. In effect, these are social decisions that can seriously hinder innovation in American industry and have major impact on small stores.

Large retailers, such as catalogue showrooms and mass marketers, rarely introduce a new product. In our company's experience, department stores will buy a new kind of product only after it has "proven itself." It is the small specialty stores, whose owners have a passionate interest in the industries they serve, that support innovation most. Current government policy on resale price maintenance is putting large numbers of these stores out of business, because they cannot exist on margins adequate for larger retailers. Consequently, I expect to see fewer American companies invest in innovative product development.

CARL G. SONTHEIMER
President, Cuisinarts Inc.
Greenwich, Connecticut

Cutting the Deficit

Jennifer Roback's "A Modest Proposal for the Deficit" (A Difference of Opinion, March 19) is elegantly simple in its Solomonic logic. Many dieters find the substitution of a 9-inch pie for the

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traditional 10-inch pie is easy, effective, and far more satisfying than no dessert at all. Likewise, with Roback's budgetary diet for Capitol Hill: we can have our diet and our dessert.

DAVID B. CROCKETT
Roseville, Minnesota

Ergonomics

Ergonomists must include in their bag of tools the design of meaningful work ("Easing Tensions Between Man and Machine," March 19). Eye-strain, aches and pains, excessive fatigue, and stress will always be present if the job is a lousy job. If the job is interesting, exciting, and challenging and offers an opportunity for continued



"Making the external factors humanly tolerable will not produce motivated workers if they hate their work."

growth, those external factors become less important. Making the external factors humanly tolerable will not produce motivated workers if they hate their work. They'll be comfortable but they'll still hate their work.

ROY W. WALTERS
Mahwah, New Jersey

When workers at video display terminals (VDTs) look from "hard copy" (paper) to the keyboard to the screen, it requires that their eyes refocus or accommodate to changes many, many thousands of times a day. Sitting stock still in one position too long will exacerbate the pain. Although ergonomics may help to alleviate some of these problems, there are simpler, more cost-effective alternatives already in use that deal specifically with the visual and musculoskeletal problems. For example, Bank Leumi Trust Co. of New York recently initiated a stress management exercise program for its VDT workers. The exercises can be done without supervision and do not require the high cost of installing new equipment or refurbishing existing facilities.

ROBERT L. GEDALIAH
New York City

Gamma Rays

Re "The Effect of Gamma Rays on the Stock Market" (March 19): Before adding up all of the supposed benefits of irradiation, writer Tom Alexander should consider more carefully how this technology will affect the food we eat. A little logic

would indicate that the same irradiation necessary to kill bugs will kill essential food nutrients as well.

Of what importance is the impact of irradiation technology on the stock market when the food to be irradiated may not be worth eating anymore?

BARRY ZAUSS
Los Angeles

Worldwide Compensation

Re "Are You Underpaid?" (March 19): Nowhere in your comparative salary statistics did you make reference to purchasing power. Living and working in Switzerland, with current knowledge of U.S. living costs from several visits there each year, I can assure you that if your statistics covered purchasing power, the U.S. manager making \$54,000 after tax would have a smile on his face like the tiger compared with his Swiss counterpart on the same salary.

BRIAN RUFFLE
Châtel-sur-MonSalvens
Switzerland

Good figures on purchasing power are even harder to obtain than salary figures. Undebatable, though, was an error in the table that accompanied the article. The median total after-tax compensation for an upper-middle manager in the U.S. in 1981 was given as \$88,500. The correct figure is \$83,400.

Oil Reserves

News/Trends (March 19) stated that what was attracting Arco to Gulf was Gulf's 725 billion barrels of proved and probable oil reserves in the lower 48. The total proved reserves of the U.S. (including nine billion in Alaska) are only around 29 billion barrels. The entire proved reserves of the Middle East are in the neighborhood of 370 billion, and the total proved reserves in the whole world are estimated at 870 billion barrels. You meant 725 million barrels.

TRENT B. LATSHAW
President, Latshaw Drilling Co.
Houston, Texas

Semiconductor Companies

In "The Coming Glut of Semiconductors" (March 19) you make an extremely important point: "Hooking up with one or more of these big brothers assures bigger supplies of both essentials [liquidity and investment capital], affording some armor against the heavy blows of the coming semiconductor recession." This statement is so simple and so correct, especially when you look at the cash-flow requirements of the individual corporations in this industry. For semiconductor companies that are in any sense successful, cash flows have been negative for every single year since the inception of the company.

Why? The answer is fairly simple. Our industry

THE TRUE FACE OF BANK EARNINGS

What with regulators pressing U.S. banks to set up reserves against loan losses in Third World countries—and fresh signs that those countries won't be able to service their colossal debt at the stated terms—profits could shrink a lot this year.

■ by Gary Hector

MAJOR U.S. BANKS have maintained a financial illusion of astonishing proportions ever since the international debt crisis erupted in mid-1982. While scrambling to keep troubled debtor countries from falling hopelessly behind in interest payments, they have stretched prudent banking and accounting principles in a successful effort to keep worries about troubled loans from sully their income statements. Now a whole series of developments could take the pretense out of bank profits.

Bank regulators—the Federal Reserve Board and the Comptroller of the Currency—are muscling the biggest U.S. banks to add generously to reserves against possible loan losses. Any provision for losses would have to be extracted from earnings. The Securities and Exchange Commission wants banks to tell shareholders more about the potential impact of those troubled foreign loans on profits. “Last year the banking community crossed an important philosophical threshold,” says a senior bank regulator. “They moved from a philosophy that countries don’t go broke to a philosophy that loans to countries may be bad. This is the year that banks will make substantial provisions for their international loan portfolios.”

Ominous events in the less developed countries that owe the money could dent earnings in another way. With Argentina in the vanguard, rebellious LDCs in Latin America and elsewhere are pressing for a long-term solution that would ease their crushing debt-service burden, presumably through lowered interest rates and stretched-out repayment schedules. Argentina’s new government, headed by President Raúl Alfonsín, stopped paying interest in

RESEARCH ASSOCIATE Rachael Grossman

mid-October while it studied its international debt problems, and isn’t likely to resume payments until the second quarter. The mere interruption in payments could erase as much as \$90 million in first-quarter profits at U.S. money center and regional banks with the largest exposure in Argentina.

If some regional U.S. banks and European lenders get their way, profits might shrink for another reason. These banks swear they won’t go along on any more new loans—especially for Brazil—unless they can see some chance that the LDCs will be able to repay their debt in the future. To improve these countries’ chances, they’d chop the interest on LDC debt in half, even if it meant writeoffs against earnings. These lenders’ own earnings wouldn’t suffer greatly since their loan exposure in the Third World is light. But the step could easily wipe out a full year’s profits for some money center banks.

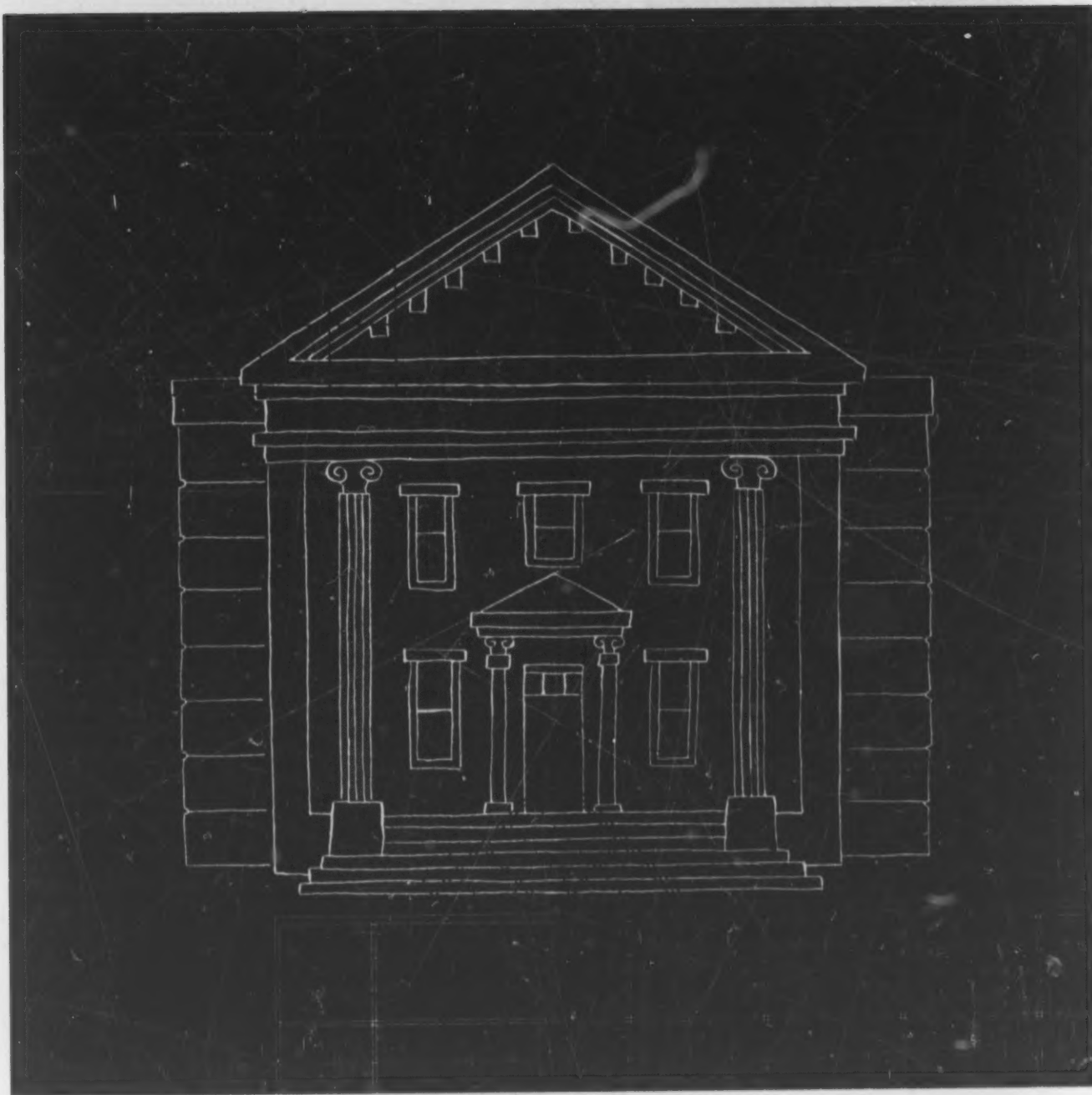
As if this wasn’t enough, a vocal minority of bankers and analysts continues to warn about the fragility of the entire mountain of loans to Latin American countries. One lender at a major New York bank says that an increase in U.S. interest rates of just 1.5 percentage points—to a prime rate of 13%—would “blow everything out of the water.” The recent 0.5 percentage point rise will boost debt service costs \$350 million this year in Brazil alone. A slowdown in exports from large LDCs, brought on by protectionism or a new worldwide recession, could also provoke a crisis.

If Latin American loans were modest and bank profits robust, the big lenders could gradually work their way out of this perilous situation. But their Latin American exposure is embarrassingly large, and a disquietingly large percentage of the banks’ earnings is in the form of IOUs, not cash. Banks have been

lending troubled debtor nations enough cash to make interest payments—which then flow right into bank income statements. Bankers acknowledge that these loans are not of the highest quality. They are commonly referred to as “involuntary” loans, since they would never have been made without the country agreeing to an economic recovery program worked out by the International Monetary Fund. The risk the banks are taking is that these new loans may never be collectible and will simply swell the debt burden of the LDCs, making it impossible for them to work their way out of the current crisis.

SOME INVESTORS find it mystifying that regulators and bank accountants can allow IOUs from cash-strapped borrowers to be recorded as income, especially when the IOUs represent such a large percentage of pretax profits. Citibank is committed to lend \$443 million to Brazil under a \$6.5-billion loan agreement signed in February. That total, which will be returned to the bank as interest, is the equivalent of more than 25% of parent Citicorp’s pretax profit for 1983. Chase Manhattan Bank, one of the few major banks to break out involuntary loans to several troubled countries in its latest annual report, committed itself to nearly \$350 million of such loans to Brazil, Mexico, and Argentina in 1983, a figure that represents about 50% of pretax profits.

Regulators are worried about the adequacy of the equity capital that supports these towering loans. After much prodding from the Fed and the Comptroller of the Currency, the ten largest U.S. banks did increase their equity by an average of 16% last year, by selling preferred stock and by adding to retained earnings. An alternative—selling common shares—didn’t look attractive. With



money center banks' common stock depressed because of troubled loans, that would have been an expensive way to raise money. The price-earnings ratios of these banks' common stocks normally run at 70% to 90% of the average P/E in Standard & Poor's 500-stock index, but currently they're at about 45% to 55% of the S&P figure—close to a historical low.

Despite the increase in equity, the money center banks remain severely undercapitalized in relation to their LDC exposures. In one simple test of capital adequacy, regula-

tors look at a bank's primary capital—a combination of equity, debt securities convertible into common stock, and reserves for loan losses.

Some banks are far worse off in this respect than others. Loans to the four largest troubled borrowers—Argentina, Brazil, Mexico, and Venezuela—represent nearly three-fourths of the LDC debt involved in restructuring negotiations last year. Among the nation's five top bank holding companies, J.P. Morgan & Co. comes closest to adequate coverage of these loans. By setting aside

about 18% of its pretax profits in 1983, it could raise its primary capital to a level equal to its exposure in those four countries. For its size, Manufacturers Hanover Corp. has the largest exposure. To reach the same objective, it would need to set aside more than five times 1983's pretax profits. Citicorp and Chase would each have to put aside more than twice last year's pretax profits.

A less drastic though still painful step would be for top banks to establish loan loss reserves against the shakiest LDC loans. Some banks outside the U.S. money centers

MONEY & MARKETS

	BANK HOLDING COMPANY	PROJECTED 1984 EARNINGS PER SHARE	REDUCTION PER SHARE IF...	
			... BANK SET UP 1% RESERVE FOR TROUBLED FOREIGN LOANS	... INTEREST RATES ON THESE LOANS FELL 2%
1	Citicorp	\$7.25	(\$.38)	(\$.76)
2	BankAmerica Corp.	\$2.75	(\$.24)	(\$.48)
3	Chase Manhattan Corp.	\$12.00	(\$.89)	(\$ 1.78)
4	Manufacturers Hanover Corp.	\$8.65	(\$.91)	(\$ 1.82)
5	J.P. Morgan & Co.	\$11.85	(\$.52)	(\$ 1.04)
6	Chemical New York Corp.	\$10.00	(\$.65)	(\$ 1.30)
7	First Interstate Bancorp.	\$6.40	(\$.17)	(\$.34)
8	Continental Illinois Corp.	\$3.00	(\$.25)	(\$.50)
9	Security Pacific Corp.	\$8.05	(\$.18)	(\$.36)
10	Bankers Trust N.Y. Corp.	\$9.40	(\$.40)	(\$.80)

How Profits Might Get Pruned

Just four countries—Argentina, Brazil, Mexico, and Venezuela—account for most of the shaky loans to Third World countries by the biggest U.S. banks. If regulators pushed the banks to set aside a reserve against losses equal to 1% of the face value of the loans to those four countries, the bank holding companies' 1984 earnings per share would fall 6% on average. A 10% reserve would slash average earnings by 60%. If the four countries could force a two percentage point drop in the interest rate on their loans, the holding companies' average earnings would decline 12%. The figures were calculated from data supplied by the brokerage firm of Keefe Bruyette & Woods.

have already taken a charge against earnings to do just that. Wachovia Corp., a North Carolina bank with relatively strong earnings and few loans in Latin America, established an 11.5% reserve against its loans to Brazil and a 15% reserve against Mexican credits last year. European and Japanese banks have also moved quickly to establish reserves. The toughest standards appear to be those applied at the Swiss banks, which also have relatively small exposures in Latin America. They have set up reserves of about 20% against troubled LDC debts, although reserves against specific countries reportedly run far higher. Large U.S. banks pooh-pooh arguments that these banks are setting an exemplary trend. Snipes a senior international lender at a West Coast bank, "The courage with which people establish loan loss reserves is inversely proportional to the size of their loans."

For the big U.S. banks with their outsize LDC loans, raising reserves comes dear. Morgan made the first move, increasing its bank's loan loss reserve from just over 1% of all its loans—a bit above average for the U.S. banking industry—to 1.4%. James McDermott, director of research at Keefe Bruyette & Woods Inc., a securities firm that specializes in analyzing banks, estimates that the

additions to reserves cost Morgan a hefty \$1.60 a share, reducing reported profits to \$10.52 in 1983. "I think the Morgan Bank has passed along a message to the investment community that it received from the regulators," McDermott adds. If McDermott is correct, the other money center banks have presumably been getting the same message, but they are behind J.P. Morgan in boosting overall reserves.

Profits at the ten largest U.S. banking companies could rise as much as 12% in 1984. Establishing a 1% reserve against loans to the four largest troubled debtors would cut that figure in half. Manufacturers Hanover Corp. would be hit hardest. According to FORTUNE's calculations, based on estimates by McDermott, a 1% reserve would knock 52 cents off that bank's projected earnings of \$8.65 per share this year (see table). Setting aside a far more comfortable 10% reserve for the four countries would reduce profits at the ten largest banks by an average of 60%. Manufacturers Hanover would wind up slightly in the red.

It appears unlikely at this point that Washington will establish specific targets for reserves against loans to any of the largest LDC debtors. "We have no magic numbers," says a senior federal bank regulator. Thomas

F. Donovan, senior executive vice president of Marine Midland Bank, worries about what might happen if the regulators place "an unrealistic level of reserves against a country." Banks would be unwilling to provide more financing, he says, and without financing for the country's trade, economic growth could atrophy: "The regulators can kill the patient while they administer the cure."

The central problem is that for the foreseeable future, debt service, if actually paid in hard cash, would eat up almost all of the trade surpluses generated by LDCs. Nothing would be left to finance the economic growth needed to avoid serious social unrest. Even the economic retrenchments demanded by the IMF have hurt. "We've probably wiped out about ten years of improvement in the standard of living in those countries," says Lewis Coleman, executive vice president of Wells Fargo Bank in San Francisco.

To ease the pressure, many lenders would like to reduce interest payments from the LDCs—if they could figure out a way to do that without taking a big hit against bank earnings. They long for a windfall in the form of a sudden sharp drop in short-term U.S. interest rates, which would reduce both their cost of funds and the rates they charge. Regional banks and a number of economists, unwilling to wait for that miraculous event, would go ahead and slash the interest rate charged major debtors to about 6%, or about half the current rate. The drop in interest income from that proposal would hit money center banks especially hard, reducing their profits by an average of 35%.

UNDER A LESS DRACONIAN approach also being proposed, banks would cut the interest rate on LDC loans by about two percentage points to the London Interbank Offered Rate—roughly what banks pay on deposits in the Euromarket. While this step would only partly alleviate the LDC's debt service problem, it wouldn't nick bank profits as badly. For the ten largest U.S. banking companies, projected 1984 earnings per share would fall about 12%.

Any such sacrificial cut in interest rates, however, could have a painful sequel. Bankers and accountants have been stretching the limits of generally accepted accounting practices in order to keep LDC debt off the lists of nonperforming loans. A substantial modification of the terms of existing loans could force the SEC or bank accountants into action. They might force the banks to write down their loans to reflect part of the inter-

MONEY & MARKETS



By refusing to pay interest since mid-October, Argentina's new president, Raúl Alfonsín, is inflicting immediate pain on major U.S. banks. Their first-quarter profits could be reduced by as much as \$90 million.



Domestic discontent, as in a lannery workers' demonstration, is toughening Argentina's stance in its negotiations with the banks. Radical factions want the country to reject austerity measures proposed by the International Monetary Fund and to extract concessions from bankers. While it's unlikely the country will repudiate its debt, pressures like these are making bank regulators increasingly uneasy about the banks' reported earnings.

est that they've agreed not to collect.

Worried that Argentina or some other debtor might force their hand this year, bankers have been scrambling for innovative financing techniques that would avoid massive write-downs. The proposal most often put forth would permit banks to receive a portion of the interest payments from major LDCs in the form of 20-year notes.

Before banks participate in any long-term loan restructurings, however, they will want assurances that their accountants won't force write-downs. They're looking to the Federal Reserve for support, and the matter may have to be resolved speedily. Over the next few months, bankers will simultaneously be handling restructurings or new financings for Argentina, Brazil, the Philippines, and Venezuela. Mexico also hopes to open talks this spring about a long-term restructuring.

Banks would like to reward Mexico for its herculean belt-tightening effort. By cutting its imports 40% last year, the country was able to generate a \$13.6-billion trade surplus, surprising even the most optimistic lenders. But other countries appear less deserving. Over the past several months, Argentina and Venezuela have been testing their negotiating muscle, attempting to extract concessions from international bankers without even acting out the charade of complying

with austerity programs proposed by the IMF.

Argentina will be the major test case. Unless a miracle occurs, bankers say, lenders will be carrying a substantial portion of Argentinian loans on nonperforming status by the end of the first quarter. That will cut bank earnings by the amount of the unpaid interest. The country's new government has vowed to spend six months scrutinizing its debt situation. If Argentina presses for major concessions, the bankers may be wrestling with a restructuring until late this year.

Most bankers don't expect Argentina to repudiate its debts or demand a full-scale moratorium. The country has the resources to pay its interest. What worries the banks is that toughness by Argentina could disrupt the entire restructuring process. Though bank regulators' rules on classifying international loans wouldn't require it, U.S. banks might find it prudent to establish reserves against the loans if Argentina's interest payments fall more than six months in arrears. To avoid this drastic move, bankers might be willing to give ground on interest rates and other terms. That would quickly invite demands from other borrowers for similar preferential treatment.

The negotiations with Brazil could prove even stickier than those with Argentina. Brazil hopes to raise perhaps \$4 billion of new

money in 1984 to tide it over in 1985. But it's having immense trouble meeting the economic targets set for it by the IMF and is going through a severe recession. A decision by more European and U.S. banks to establish large reserves against Brazil's loans would make it far more difficult for that country to raise debt-service cash abroad.

BANKERS ANTICIPATE that the unpaid interest on Brazilian loans could soar by year-end, deepening the schism between large and small lenders. Brazil will be pressing hard for a long-term debt restructuring, which it desperately needs to get its economy back on track. Regional banks might be willing to go along just to get the problem behind them. The big banks may feel they can't afford to.

Bankers are girding for a prolonged siege ending sometime in 1985, after a newly elected administration takes power in Brazil. They predict that this round may make the long Brazilian donnybrook last year look like a church social. Depending on the outcome, substantial chunks of Brazil's debt—and possibly that of other Latin American countries—could wind up in the nonperforming category. That would force banks to strip away the façade from their profits if the regulators haven't induced them to do it in the meantime. □